HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Peterborough CMA

Canada Mortgage and Housing Corporation

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New Home Market

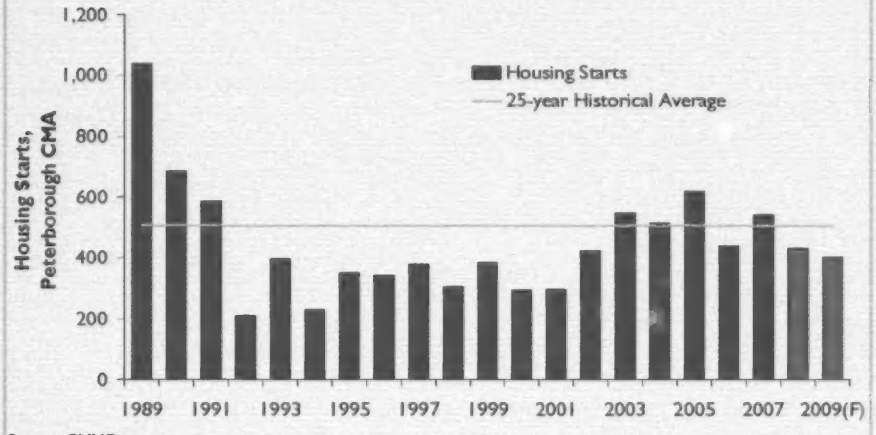
New Housing Starts Declining

New housing construction in the Peterborough Census Metropolitan Area (CMA) will slow down over the next two years. Higher prices and more opportunity in the resale home market will be the key factors contributing to slower new housing demand.

Total starts in 2008 will come in at 430 (a 20 per cent decline from 2007) and 400 in 2009. Although the decline is due mainly to fewer single-detached home starts, this housing type will continue to be the home of choice in the region and will account for over 60 per cent of all new home construction in each of 2008 and 2009. New construction

Figure 1

Housing Starts Decreasing



Source: CMHC

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on semi-detached homes will see no change over the next two years, but remain steady at 5 units in each of 2008 and 2009. The main increase in 2008 will occur in rowhouses which will account for nearly 30 per cent (120 units) of all construction. The number of rowhouse starts will fall back to 85 units in 2009 when apartment starts will rebound to 60 units after having decreased to 25 units in 2008.

At the submarket level, Peterborough City continues to account for the majority of new construction. In the most recent quarter, Peterborough City accounted for over 81 per cent of all new starts (or 26 new starts). It is worth noting that all higher-density construction (such as rowhouses and apartments) was built in the urban core.

Prices for new single-detached homes increased at a double-digit pace last year. This year prices will rise by double-digits again and settle at $371,000, a 20 per cent increase.

An increase of this magnitude indicates that, in addition to the generalized increase in house prices, more higher-value homes are being built. In Peterborough, larger homes are being built on same size lots. This will continue to be a factor in 2009, when prices for single-detached homes will continue to rise, but only by single-digit growth to $390,000 (a 5 per cent increase).

Given the robust price growth of singles, demand will shift towards less expensive types of new housing such as apartments or town houses. Peterborough has a relatively mature population, and older households are beginning to be interested in purchasing smaller homes as they retire and shift down in their housing needs. There is also still growth in a younger demographic, who are usually interested in purchasing less expensive higher-density housing. Therefore, in order to accommodate this demand, home builders have begun to increase the production of row and apartment housing.

Resale Market

Resale Market Moving Towards More Balanced Conditions

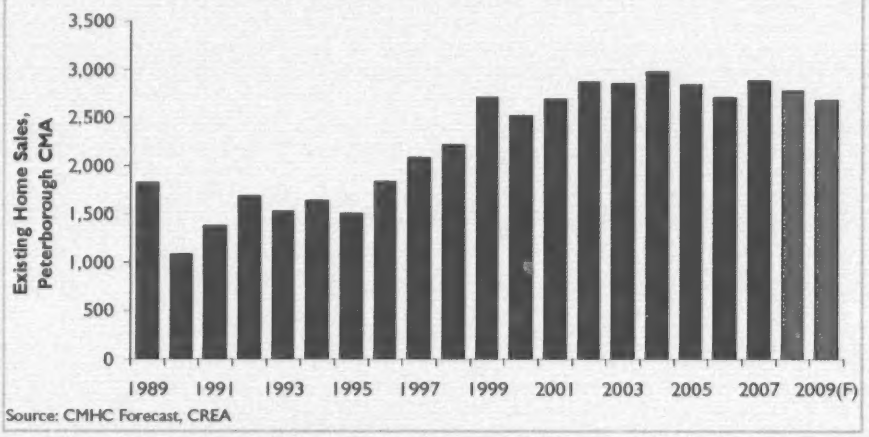
Despite good employment growth, in-migration, and low mortgage rates, demand for resale homes will begin to edge down. Existing home sales are expected to come in at 2,780 units in 2008 and 2,680 units in 2009, decreases of close to 4 per cent in each respective year from the previous year. This is still substantially above the average over the last housing cycle, but a definite decline relative to recent market activity.

Resale prices will continue to climb but not as robustly as in 2007. Prices are expected to increase close to five per cent in 2008 to $242,000 and just over three per cent to $250,000 in 2009. Even though Peterborough has had, and will continue to maintain, a price advantage relative to other nearby markets, most notably Toronto, the price of resale homes in Peterborough has been moving up faster than in neighbouring jurisdictions. This will be a factor in lower existing home sales.

On the other hand, the price growth provides existing home owners considering selling their home a greater incentive to do so and put their home on the resale market. As a result, new listings will continue to rise. In 2008 new listings will increase to 5,150 (or just over 1 per cent) and 5,170 in 2009 (or close to one-half of a per cent).

Figure 2

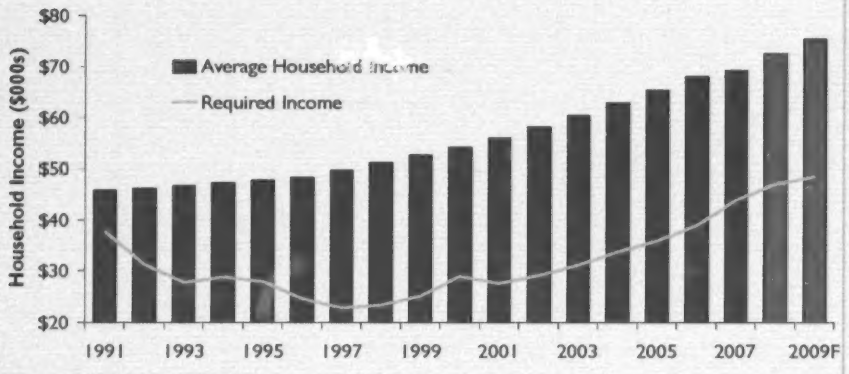
Resale Home Sales Still High



Source: CMHC Forecast, CREA

Figure 3

Income Required to Carry a Mortgage in Peterborough Rising Faster Than Average Household Income



Source: CMHC, Statistics Canada

The combination of decreasing unit sales and increased listings indicates that Peterborough, while still a healthy housing market, will continue last year's trend and move closer to a balanced market[1], one where price growth is close to the rate of inflation and supply is more closely matched to demand.

Even though Peterborough relative to other markets remains a modestly priced market, the increased resale prices and to a lesser degree rising mortgage rates have meant that the income required[2] to comfortably carry a mortgage[3] has increased. Actual average household income[4] in the area has not kept pace. With required incomes rising towards actual incomes, housing demand is easing.

Economic Trends

Economy Still Growing

The main impetus to growth has been an increasing population drawn by the modestly- priced housing in the region. Between 2001 and 2006, the 20-24 and 45-64 age groups, age groups associated with first-time and repeat buying, grew significantly. The need for more goods and services for the growing population translated into increased employment growth. This trend should continue with employment expected to grow over the next two years; employment is expected to grow by 2.4 per cent (to 58,000) and by 2.1 per cent (to 59,200) in 2008 and 2009 respectively.

Over the last 20 years full-time employment tenure has a majority share of the labour market, averaging over 76 per cent. Strong employment growth, especially in the full-time sector, is a key driver for household formation and home purchase. When employed full-time, individuals are able to accumulate greater wealth, plan for more significant expenditures and thus provide a down payment for a home much easier. The region's strong reliance on this sector of the labour force should continue but, it is important to note, the proportion of part-time employment has grown slightly over the last few years. From 2006 to 2007, while full-time employment grew by over 3 per cent, part-time employment grew by over 6 per cent. More mature individuals re-entering the labour market is one cause of the stronger increase in part-time employment.

At an industry level, sectors such as services, manufacturing, and trade continue to represent a majority of the labour force. Services will continue to be the dominant industry in Peterborough. Construction, which last year saw growth in employment, should begin to give back some of this growth as the housing market begins to move off its peak. Industries that will see some growth include trade and public administra-

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[1] The sale to new listings ratio (SNLR) is a proxy measure for the interplay between demand (sales) and supply (new listings) in the market. A market with an SNLR above 55 per cent is classified as a seller's market while a market with an SNLR between 35 and 55 per cent is classified as a balanced market and a market with an SNLR below 35 per cent is considered a buyer's market. In a balanced market demand is relatively equal to supply, prices tend to grow at the rate of inflation, and homes are not sold as quickly as in a seller's market.

[2] Annualized mortgage carrying costs divided by 32 per cent, lenders' standard gross debt service ratio

[3] Based on the average MLS® price, 25 year amortization, 25 per cent down payment, and the average of all posted fixed five-year mortgage rates.

[4] Based on census data to 2006 and estimated using average weekly earnings subsequently.

tion. Finally, transportation will see some further growth, especially given this year's federal budget pledge to potentially increase transportation access in the coming years (train service) to Peterborough and the recent addition of GO bus service between the communities of Peterborough and Oshawa.

Key Housing Demand Age Groups Continue to Grow

An attractive community, coupled with an affordable and quality housing market have been the catalysts for Peterborough CMA's population growth. Not only is the region's existing population growing (i.e., youth moving out of their parent's homes to form new households and beginning families, etc.) but people from other regions have been settling into the region as well, as evidenced by positive net migration figures.

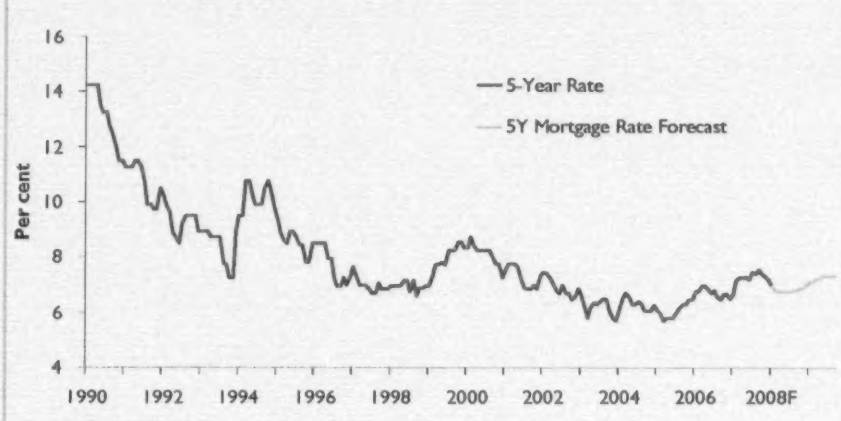
According to data from Statistics Canada's recent census, overall the region's population has grown, but while most age ranges have exhibited marked increases between 2001 and 2006, the majority of growth is coming from two age groups: 20-24 and 45-64. Since 2001, the 20-24 and 45-64 age groups have grown by 32.6 and 29.5 per cent respectively. Yet, despite robust growth in the younger demographic, Peterborough continues to be a community associated with a more mature population and family households. Since 2001, the median[5] age in Peterborough has increased from 41 to close to 43 years of age and the number of married individuals has grown by close to 12 per cent.

Mortgage Rates will Remain Relatively Flat

Posted mortgage rates eased by about 50 basis points in the first four months of this year, although rates in late April were 30 to 35 basis points higher than they were 12 months prior. Mortgage rates are expected to trend marginally lower throughout 2008, but will be within 25-50 basis points of their current levels. For 2009, posted mortgage rates will begin to drift up slightly as the year progresses. For 2008 and 2009, the one-year posted mortgage rate is forecast to be in the 6.50-7.50 per cent range, while three and five-year posted mortgage rates are forecast to be in the 6.75-7.50 per cent range.

Figure 4

Mortgage Rates Will Remain Relatively Flat



Source: Bank of Canada

[5] Median refers to the point at which half the population is under and half the population is over. In the case of this section the statistic of interest being age.

Forecast Summary Peterborough CMA Spring 2008	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	2,847	2,714	2,880	2,780	-3.5	2,680	-3.6
MLS® New Listings	4,751	4,960	5,085	5,150	1.3	5,170	0.4
MLS® Average Price ($)	206,270	213,469	231,596	242,000	4.5	250,000	3.3
New Home Market							
Starts:							
Single-Detached	449	283	324	280	-13.6	250	-10.7
Multiples	170	154	216	150	-30.6	150	0.0
Semi-Detached	8	4	4	5	25.0	5	0.0
Row/Townhouse	157	89	107	120	12.1	85	-29.2
Apartments	5	61	105	25	-76.2	60	n/a
Starts - Total	619	437	540	430	-20.4	400	-7.0
Average Price ($):							
Single-Detached	246,892	298,272	342,152	371,000	8.4	390,000	5.1
New Housing Price Index (% chg. Ontario)	4.6	3.7	2.6	n/a	-	n/a	-
Rental Market							
October Vacancy Rate (%)	2.8	2.8	2.8	2.6	-	2.2	-
Two-bedroom Average Rent (October) ($)	797	818	822	834	-	847	-
Economic Overview							
Mortgage Rate (1 year) (%)	5.80	6.30	7.35	6.95	-	6.83	-
Mortgage Rate (5 year) (%)	6.30	6.45	7.54	7.01	-	6.97	-
Annual Employment Level	55,875	53,900	56,650	58,000	2.4	59,200	2.1
Employment Growth (%)	1.1	-3.5	5.1	2.4	-	2.1	-
Unemployment rate (%)	7.1	6.1	5.7	5.4	-	5.3	-
Net Migration (Peterborough County) (1)	860	982	850	850	0.0	850	0.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = apartments 3+
(1) 2007 migration data is forecasted

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